Credit—Solving Farmer's Greatest Problem

What South Dakota Is Doing With Its Rural Credit System

By R. P. CRAWFORD

CREDIT apparently is the farmer's greatest problem—a fact which is especially evident right now. Rural credits is a subject that has formed the center of many discussions for years, and it generally ends up by leaving things as they are. But in this matter it is worth while to examine the accomplishments of the state of South Dakota which is probably the first state in the Union that has a real working system in operation. Twenty-eight million dollars may seem like a huge sum of money, but it represents the amount that has been loaned the farmers of that state the last three years through its rural credit system.

The South Dakota system is to some extent modeled after the Federal Farm Loan Banks and is especially important since the work of the Federal Land Banks is tied up in the courts. It is also important right now when it has been almost impossible to secure loans anywhere and the banks have been sorely pressed to keep a sufficient reserve on hand. I rather imagine that more than one South Dakota bank will have to thank the rural credit system of that state by the time the crisis is over. In many cases farmers have been able to secure money through the rural credit department and use it to square up their obligations at the local bank.

The South Dakota system depends for its existence upon long-time mortgages on farms. These are taken for a period of thirty years. By paying a very small amount each year, a farmer is able to wipe out his indebtedness without feeling the strain to any appreciable extent. This is really about the only solution of things for the renter or young man who wants to make a start in farming today. The capital of the present-day farm, counting land and improvements, is usually greater than the capital of the bank or of any of the stores in that immediate section. Few men who enter the farming business are born with a silver spoon in their mouths with the exception of those who inherit the family farm. This system is designed to help the average farmer. For instance, at 7 per cent, the present rate, a farmer pays back but $8.06 per year for each $100 that he has borrowed. This includes both principal and interest. At 6 per cent, the old rate, the payments were but $7.26 per year on each $100 borrowed. Doubtless, arrangements will be made to lower the rate for those who have had to borrow under the advanced rates of interest today.

Picture a bank where applications for loans amounting to a total of $100,000 to $250,000 are coming in every day, and you have an idea of the amount of business transacted by the South Dakota Rural Credit Board. Although the rural credit system just got under way in the autumn of 1917, to date approximately $28,000,000 has been loaned. Somewhat more than $52,000,000 worth of applications for loans have come in, and a large number of necessity have had to be turned down because they did not meet the requirements of the rural credit board. Three hundred twenty-five applications for loans were received during the first nine days of December. Of course only the most urgent cases are taken care of at present, for the board might readily be swamped with applications for money which would not be wisely invested. In case a farmer is financially embarrassed at the bank, the board can often arrange to place a long-term loan on his land, and furnish him with money with which to pay up his most pressing obligations at the bank, thereby easing up the credit situation in that community.

Most people might wonder where this money comes from. If you have seen the circulars of the large bond houses, you have probably seem the farm loan bonds of South Dakota offered for sale. The money is secured by selling large blocks of these bonds to the large eastern houses which in turn sell them to investors throughout the country. The state of South Dakota guarantees the payment of them, which gives better surety to the investor than if he simply purchased an ordinary mortgage and perhaps had to run the risk of looking after a number of legal and technical details himself. The plan of the rural credit system was largely worked out by United States Senator-elect Peter Norbeck of that state when he was governor. The board of directors includes the governor, a commissioner, C. M. Henry, a treasurer, vice president, and also a secretary. This board passes on the applications for loans. The very first loan that the board made was to a renter who was enabled to become an owner of a farm.

However, it must not be thought that anyone can borrow money just for the fun of doing so. There are certain definite requirements that must be met. First, the applicant must be a resident of the state of South Dakota and the owner or prospective owner of farm land on which a long-time mortgage is to be placed. The rural credit board is authorized to lend up to a maximum of 70 per cent of the appraised value of the land, plus an additional 40 per cent of the insured value of the improvements. No loan can be made for a total of more than $10,000 and no loan for improvements on the land can amount to more than $5,000. This provision is to prevent big landowners from getting heavy mortgages on their land; in short, it is designed to help the man who is just getting a start. It is especially interesting to note that the average amount loaned per acre from October 20, 1917, to June 30, 1920, was $16.21. The largest number of loans had been made in Perkins County, in the northwestern part of the state, and the total number of loans there was 512, with an average of $5.53 per acre. The next largest number, 329, was in Haakon County, west of the Missouri River, where the average was $5.76 per acre. It will be seen that the system is especially popular in giving the small farmer a start, just as in years past the free government homestead was a great aid in helping those who had a great deal of ambition but little money. In fact, the state of South Dakota hopes that the credit system will do much to develop the more sparsely settled sections of the state.

The money borrowed of the credit board must be used for the purchase of farm lands, for the purchase of equipment, fertilizers, and live stock, for buildings and improvements, or to liquidate the indebtedness of the owner. Needless to say, loans are made only on land located in the state of South Dakota. Applications are made direct to the rural credit board and there are no fees or commissions to pay, except that the applicant must see that all of his papers and abstracts are correct. The credit board, of course, must see that there are no loopholes and that the loan can be made safely on the particular land.

Naturally the state must depend on the law of averages in insuring the success of the system and must make a small profit with which to pay operating expenses and build up a surplus. The bonds have been sold at interest rates varying from 4.75 to 6.17 per cent, while the loans have been made at rates varying from 5.50 to 7 per cent. It must be remembered that the bonds draw interest semi-annually, while the farmer pays but once a year, and there is always some little time before the money on hand is all loaned out. To c[illegible] these items and the cost of administration, the state must ask a higher rate from the borrower than it pays on the bonds.

The borrower is permitted to repay all or any part of his loan at any interest date after five years. There undoubtedly will be those who may want to get money at cheaper rates later and it is possible that the rural credit board will make some arrangements to make new loans to those who are now paying the maximum rates. Of course the present interest rates on the bonds will have to be taken into consideration and the law of averages over a number of years would show just how much reduction in interest there could be and still take care of the bonds. The present maximum interest rates on the bonds will probably have to be paid only a short time, and the average rate on the bonds over any long period of years will be far below it. The law provides that at all times the amount of mortgages and cash shall equal 95 per cent of the bonds outstanding. Undoubtedly in a few years some surplus will be built up.

A plan somewhat similar to the rural credit plan and working in conjunction with it is one by which ex-soldiers are given an opportunity to own farms. In this case the soldier needs to furnish only 10 per cent of the appraised value of the land and 20 per cent of the value of the improvements. The rural credit board supplies a loan of 70 per cent of the value of the land, and the additional money is secured through the land settlement board.

It is not intended to encourage the buying of high-priced lands in the eastern part of the state, but rather the cheaper lands, on which a good start may be made with small capital. It is especially interesting to note that 70 per cent of the soldier loans have been made on lands west of the Missouri River and 30 per cent on lands east of it. Just as in the case of the rural credit loans, not more than $10,000 can be loaned to any one person, and it is further provided that not more than $3,000 of this amount can be expended for live stock and improvements. The loans to soldiers are made on a thirty-year amortization plan, the same as the rural credit loans. Only soldiers who were credited to South Dakota in the war can take advantage of the plan.

That the popularity of a rural credit system is growing is indicated by the fact that the South Dakota officials have received inquiries from fifteen other states, indicating interest in establishing such systems. It seems evident that either the Federal Farm Loan System will have to be revived, or that states will have to go into the business, or else that private capital be made available on long-time amortization plans. The old-time mortgage comes due at too frequent intervals and there must be constant renewals and commissions to pay. Some years ago a man could go out and take a homestead, but today there is little homestead land left. It would seem that some system which would enable a man to buy cheap, but good land, and pay for it as he goes along, would best fill the needs, and South Dakota seems to have done this to a large extent.

Would Turn Port Over to Private Capital

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permanent continuing plan for the adequate development of the port; for obtaining adequate additional funds, and for encouraging business enterprise in aiding the dock board to create adequate facilities.

"2. That, either through public or private enterprise, a terminal and warehouse be created on the harbor front for even-running packages, such as coffee, sisal and similar commodities of import and export.

"3. That business enterprises be encouraged to construct and operate warehouses and such structures as may be needed back of the river front wharves, on either publicly or privately owned property."

The report then continues:

"New Orleans needs river front terminals, in principle at least, like the Bush Terminal in New York, or the great terminal at Manchester, but these obviously cannot be obtained under the present system of public ownership and public development. The commerce of New Orleans requires permanent facilities for indefinite storage at ship, boat and rail side—storage not subject to such penalties as the dock board has recently found necessary to apply to merchandise left on the wharves more than seven days, in order to clear the wharves for other ships . . . .

"In the development of our present-day policy, New Orleans has gone to the extreme of public ownership and operation, and has overlooked the fact that a combination of public ownership and business investment and operation would bring into action the best in both systems. Private enterprise never can gain any freehold rights in the harbor of New Orleans, because the public owns 41 miles of harbor frontage and never can sell any part of it. If the dock board would capitalize a part of this enormously valuable economic asset by entering into a sound business arrangement with desirable steamship lines to build thereon the character of terminals they require, millions of dollars soon would come to the assistance of New Orleans in promoting its port development."

The port of New Orleans was established, coincidentally with the founding of the city of New Orleans, by the French in 1717, and from the beginning the public was given ownership of the entire harbor frontage. This public ownership was made perpetual by the Louisiana Purchase Treaty of 1803. The port is located on the east and west banks of the river, 110 miles by water from the Gulf of Mexico. Its harbor averages three-quarters of a mile in width and 30 to 200 feet in depth all the way from the outer end of the jetties in the Gulf to Baton Rouge, the state capital, a distance of 237 miles. Forty one and a fraction miles of this tremendous deep-water harbor lies within the limits of the city of New Orleans, which is co-lineal with the Parish of Orleans, a trifle less than 21 miles of harbor lying on each side of the river. From New Orleans to the Gulf there is a minimum depth of 60 feet, and in midstream at New Orleans, the depth is well over 175 feet. The number of vessels which can be accommodated in the stream is virtually unlimited, but development of the wharves and other port equipment is far behind the needs of the port, and, in the opinion of commercial and shipping interests, never can catch up with the advancement of ship traffic under the present system of public development, which has no capital and must build only such wharves and terminals as are absolutely indispensable, and even those only when some corporation or individual, needing such facilities, advances the money.

The dock board took charge of this great port on May 29, 1901, and, to October 1, 1920—the date of the board's latest report—had improved only about seven miles of the east bank of the river, on which is located the main part of the city. Wharves, steel sheds, cotton compress and warehouse, grain elevator, and a coal tipple have been built. Wharves, elevators and warehouses built by private capital, mainly on the west bank of the river, in suburbs of Algiers, Gretna, McDonoghville and Westwego, bring the total improved part of the port up to 45,000 lineal feet, or less than nine miles, out of a total of 41 miles. This developed section has a deep water area of more than seven square miles, but is less than 50 per cent adequate to handle the commerce of the port, according to the figures of New Orleans commercial organizations and shipping firms. The entire port can berth only [illegible] vessels of a maximum length of 500 feet, simultaneously, and there are cargo-handling facilities for about one-third this number. The result is that ships have to be docked "tandem," anchored in midstream, unloaded into lighters, or have their cargoes handled in other makeshift methods, which the coming constitutional convention will be asked to remedy by reversion from the present exclusive public ownership to private business enterprise.